

# **An Update on the Texas Municipal Retirement System**

for  
**Town of Addison**  
July 17, 2017

Presented by  
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## **TMRS Discussion**

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- Overview of TMRS
- TMRS Funding Basics
- Addison's TMRS Benefits
- Metroplex TMRS City Comparison
- Cost of Living Adjustment (COLA)
- Unfunded Liability - GASB No. 68 & 75

## TMRS Membership\*

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- 872 cities participate in TMRS (not Houston, Dallas, Ft. Worth, Austin, El Paso, or Galveston).
- TMRS has approximately 109,000 active member accounts and 59,600 annuitants.
- Governed by 6-member Board appointed by Governor with Senate approval.

\*As of 12/31/16 TMRS Comprehensive Annual Financial Report (CAFR)

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## TMRS Funding Basics

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- TMRS is a “hybrid” **cash-balance defined benefit plan** with statutory regulations in place that ensure oversight and responsible funding.

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## TMRS Funding Basics

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- **Cash-balance defined benefit** - lifetime annuity at retirement and is based on the members accumulated contributions with interest + the city matching dollars + any additional monetary credits such as Updated Service Credits (USC).
- **Updated Service Credit (USC)** - is an optional provision that once it is adopted by a City, looks at the changes in a members salary as well as any changes the city may have made to its TMRS plan (changes in deposit or matching ratio). It is a credit granted to the employee which may increase the value of the members account at retirement.

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## TMRS Funding Basics

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- TMRS has a **strong funding policy** and a healthy funded ratio around 86% with approximately \$25 billion in assets.\*
- Several changes have been made since 2007 to ensure **long-term, sustainability and advance funding** of all benefits; except Ad Hoc adoptions of Updated Service Credit and COLAs.

\*As of 12/31/16 TMRS Comprehensive Annual Financial Report (CAFR)

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## TMRS Funding Basics

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- TMRS' investment return assumption is **6.75%**, one of the lowest among large public plans.
- Employee account balances grow at **5%** annually.

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## TMRS Funding Basics

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- City accounts are credited with the annual interest credit determined annually by the board based on actual earnings of the TMRS pension fund; assumption is 6.75%.
- Interest credits to city accounts different than the assumed 6.75% result in actuarial gains or losses reflected in future contribution rates.

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## Addison Benefits

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- 7% Employee Contribution
- 2 to 1 match from city
- 5 year vesting - survivor benefits
- Retirement at 20 years of service or age 60 with 5 years service
- Restricted Prior Service Credit
- Buy Back - Adopted November 1988
- Military Service Credit
- Supplemental Death Benefit - Actives and Retirees
- Updated Service Credits - 100% w/ Transfer, Annually Repeating
- COLA - 70% CPI, ad hoc last adopted effective 2015

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## TMRS Makes Dollars & Sense to Cities

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- Plan of choice for Texas cities; **voluntary** statewide retirement plan
- Benefits are funded by mandatory employee deposits, city contributions, and investment income
- Operates by local control: Each participating city controls employer costs by choosing its own options

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## TMRS Makes Dollars & Sense to Cities

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- Each city is funded as separate entity; assets are pooled for investment purposes
- Each city has its own assets and liabilities and Funded Ratio
- TMRS increases a city's competitive edge in hiring and are effectively portable across participating cities to help attract experienced employees

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## TMRS COLAs

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- Ad hoc or annually repeating, adopted or changed by city ordinance
- Options are 30%, 50%, or 70% of change in CPI since member retired
- Annually Repeating COLAs are advance funded and reflected in city rates
- Reducing the COLA percentage may mean that some retirees will not receive a COLA for several years

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## TMRS COLAs

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- TMRS Advisory Committee studied COLAs this past interim — suggested no changes, but “no catch-up” COLA continues to be discussed as an option for future legislation
- TMRS encourages all cities that wish to provide a COLA to adopt on an annually repeating basis

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## Ad Hoc COLA Adoptions

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- Ad hoc COLAs are funded over a 15-year period using level dollar amortization
- Repeated adoptions of Ad hoc COLAs will cause a city contribution rate to increase steadily while funded ratios will likely decline
- Regular adoption of Ad hoc COLAs will be reflected in financial disclosures as annually repeating COLAs

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## GASB Statement No. 68

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- Effectively “disconnected” pension reporting from pension funding. GASB 68 changes only affect financial reporting, NOT funding.
- The resources cities and their auditors need for GASB compliance are on the TMRS website’s “Eye on GASB” page and the City Portal.

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## GASB Statement No. 75

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- Will significantly change accounting for Other Post-Employment Benefits (OPEBs), including the TMRS Supplemental Death Benefit
  - Other Post-Employment Benefits (OPEBs) - include benefits that a retired employee receives once they leave employment.
- Effective for fiscal years beginning after June 15, 2017
- TMRS will provide more information prior to that date

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## TMRS' Actuarial Funding

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- A sound funding policy is the key to ensuring sustainable and secure retirement benefits over all generations of workers.
- The city's employer contribution determined annually under this funding policy is called the Actuarially Determined Employer Contribution (ADEC) and serves as the basis for determining the Full Retirement Rate contribution under TMRS.
- Three keys to a strong funding policy:
  - Actuarial cost method
  - Asset smoothing method
  - Amortization policy
- The TMRS [Actuarial Funding Policy](#) is posted on the TMRS website.

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## Addison Actuarial Status

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As of 12/31/2016

Actuarial Value of Assets	\$115,574,805
Unfunded Actuarial Accrued Liability	\$4,850,414
Funded Ratio	96.0%
Equivalent Single Amortization Period	14.6 years

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## Contribution Rates for Addison

	Contribution Rate*	Unfunded Actuarial Accrued Liability	Funded Ratio
2013	10.69%	\$3,868,875	96.3%
2014	10.39%	\$2,450,142	97.8%
2015	10.33%	\$4,542,059	96.1%
2016	9.50%	\$4,850,414	96.0%
2017	10.44%	Not available	Not available
2018	10.62%	Not available	Not available

\*Full Rates for retirement and Supplemental Death Benefits

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## QUESTIONS?



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